

108TH CONGRESS  
1ST SESSION

# H. R. 1479

To amend the Internal Revenue Code of 1986 to allow the use of completed contract method of accounting in the case of certain long-term naval vessel construction contracts.

---

## IN THE HOUSE OF REPRESENTATIVES

MARCH 27, 2003

Mrs. JOHNSON of Connecticut (for herself, Mr. JEFFERSON, Mr. CANTOR, Mr. TAYLOR of Mississippi, and Mr. WICKER) introduced the following bill; which was referred to the Committee on Ways and Means

---

## A BILL

To amend the Internal Revenue Code of 1986 to allow the use of completed contract method of accounting in the case of certain long-term naval vessel construction contracts.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. MODIFICATION OF ACCOUNTING RULES FOR**  
4 **CERTAIN NAVAL LONG-TERM CONSTRUCTION**  
5 **CONTRACTS.**

6 (a) IN GENERAL.—Section 460(e)(1) of the Internal  
7 Revenue Code of 1986 (relating to exception for certain  
8 construction contracts) is amended by striking “or” at the

1 end of subparagraph (A), by striking the period at the  
 2 end of subparagraph (B) and inserting “, or”, and by in-  
 3 serting after subparagraph (B) the following new subpara-  
 4 graph:

5 “(C) a qualified naval construction con-  
 6 tract for which an election is made under para-  
 7 graph (7).”.

8 (b) QUALIFIED NAVAL CONSTRUCTION CONTRACT.—  
 9 Section 460(e) of the Internal Revenue Code of 1986 is  
 10 amended by adding at the end the following new para-  
 11 graph:

12 “(7) QUALIFIED NAVAL CONSTRUCTION CON-  
 13 TRACT.—

14 “(A) IN GENERAL.—A taxpayer who owns  
 15 and operates a shipyard may elect to use the  
 16 completed contract method of accounting with  
 17 respect to any qualified naval construction con-  
 18 tract for the building, construction, reconstruc-  
 19 tion, or rehabilitation of a naval vessel at such  
 20 shipyard.

21 “(B) DEFINITIONS.—

22 “(i) QUALIFIED NAVAL CONSTRU-  
 23 TION CONTRACT.—For purposes of this  
 24 subsection, the term ‘qualified naval con-  
 25 struction contract’ means a contract—

1 “(I) entered into by the taxpayer  
2 with the Federal Government for the  
3 building, construction, reconstruction,  
4 or rehabilitation of a naval vessel, and

5 “(II) which the taxpayer esti-  
6 mates (at the time such contract is  
7 entered into) will be completed more  
8 than 24 months after the contract  
9 commencement date of such contract.

10 “(ii) NAVAL VESSEL.—For purposes  
11 of clause (i), the term ‘naval vessel’ means  
12 any vessel intended to be navigated in, on,  
13 or under the water.

14 “(iii) COMPLETED.—For purposes of  
15 this paragraph, the term ‘completed’  
16 means upon issuance of a letter of accept-  
17 ance or similar document by the Federal  
18 Government.

19 “(iv) ENTERING CONTRACTS.—For  
20 purposes of clause (i), a taxpayer shall be  
21 treated as entering into a contract with the  
22 Federal Government if the taxpayer is  
23 specified in the bid for such contract as  
24 being a member of a team (for purposes of  
25 performing the work under such contract)

1           that includes the person who entered into  
2           such contract.

3           “(C) EFFECT OF ELECTION.—An election  
4           under this paragraph shall apply to all con-  
5           tracts of the taxpayer which are entered into  
6           during the taxable year in which the election is  
7           made or any subsequent taxable year.

8           “(D) SEPARATE CONTRACT.—For pur-  
9           poses of applying this paragraph, in the case of  
10          a qualified naval construction contract which  
11          covers more than 1 vessel, each vessel covered  
12          by the contract shall be treated as a separate  
13          contract for the purpose of applying the com-  
14          pleted contract method, and the gross contract  
15          price and the total contract costs shall be allo-  
16          cated to each separate vessel contract in accord-  
17          ance with regulations prescribed by the Sec-  
18          retary.

19          “(E) EARNINGS AND PROFITS.—Section  
20          312(n)(6) shall not apply to a taxpayer which  
21          has made an election under this paragraph with  
22          respect to a qualified naval construction con-  
23          tract.”.

24          (c) EFFECTIVE DATE.—The amendments made by  
25          this section shall apply with respect to naval vessels for

- 1 which a letter of acceptance or similar document is issued
- 2 by the Federal Government after December 31, 2003.

